NOTES

EMERGENCY FINANCIAL MEASURES OF JAPAN

When Sir Henry S. Maine called the Russian tongue "an unfortunate veil of language," he uttered a truth the poignancy of which is particularly felt by the Japanese people. With the almost insuperable barrier of an unfamiliar language hindering the speedy and correct exchange of ideas, the action of the imperial government of Japan is often greatly misunderstood. I welcome, therefore, an opportunity to publish in English a few facts concerning the financial measures which the Japanese government has found it necessary to take in self-protection during the present war—facts which, in the light of somewhat similar action on the part of the United States, may not be wholly without significance. It is not the purpose of this discussion to describe in any detail the condition of government finance before the outbreak of the war nor the vicissitudes of business life which followed shortly after. Since these matters have already been treated,[1] only such emergency steps as Japan was forced to take in connection with war finance will be considered.

At the outset certain limitations must be acknowledged. The huge bulk of legislation during the war period, the rapidity with which measures have been passed, and the almost impossibility of pausing for a moment to analyze in minutiae that which has become law—these factors, combined with the abnormal condition of the mail service between America and the Orient, have caused an extreme scarcity of literature upon the subject and have restricted the sources of information largely to fragmentary newspaper items received at irregular periods from Japan. Possibly, however, even such evidence may lead to a new point of vantage and enable us to view, however imperfectly, the comparative actions of the two border nations of the Pacific in the field of government finance.

Effect of war upon taxation.—Japan has been at war more than three years; America less than one year. Nevertheless, the intensity of purpose displayed by America has caused her to meet, within that short interval, expenditures so gigantic that what was once financial imagination is now the tangible, the actual. With the "first" and "second"

[1] Dr. Juichi Soeda, *Journal of Political Economy*, September, 1916.

Liberty Loans, America added within a single year to a previous total debt of only one billion dollars the huge sum of five billion dollars. Additional taxes were also necessary, and by increasing the rates of the old taxes and creating new taxes the American people in the present fiscal year will pay to the federal government a record total of taxes of approximately two and one-half billion dollars.

In providing for this increased tax levy the revolution of the federal tax system was a necessary by-product; and, although increased burdens are by no means welcome, the procedure which the United States has adopted toward collecting these vast sums should win the approval of students of finance like Professor Adams, who has long been urging the "separation of the sources of revenue corresponding to the separation of public duties assigned to the several varying grades of government." With the exception of the centralizing tendency which has manifested itself in these war levies, the American financial philosophy has been assuredly decentralizing; or, expressed more concretely, the local tax province has been unduly widened at the expense of what should be federal tax territory. Using the somewhat technical terms of "direct" and "indirect" taxes, and taxes on "acts" and "transactions," it can be said that the federal tax system before the war, with the exception of the corporation tax, was built to collect from one source, indirect taxation. It is manifest, of course, that this phenomenon is due primarily to the American political philosophy which was clearly expressed in the Constitution and subsequent judicial interpretation. The interesting things to note are these: the passage of an "Act to reduce the tariff duties and to provide revenue for government, and for other purposes," on October 3, 1913, gave the federal government a direct tax under the name of the "individual income tax"; with a series of taxes which became law in October, 1914, a tax was placed on "acts"; and with the more recent "Act to provide revenue to defray war expenses, and for other purposes," on September 28, 1917, the "doctoring" process is somewhat complete, and the time-honored inconsistency and anachronism of the federal tax system has been remedied. Indeed, it is now possible to say that not only have the sources of income been tapped by the federal government, but, what may in the long run be equally significant, that the war has brought about a complete readjustment of the national tax system of America.

In sharp contrast with the foregoing action of the United States is the fact that Japan was not compelled to adopt such legislation. In the fiscal year of 1916–17 the government was called upon to face an

expenditure of 590 million yen. This sum, compared with the figures of the preceding year, could not be called abnormal, and although to this sum must be added an emergency sum of 200 million yen expended for war purposes, it has been found possible to meet the larger part of this additional expense by applying "treasury surplus." It is true that the imperial government of Japan promised Parliament that steps would be taken to introduce an excess war profit tax in the next session, but, judging from the amount of probable revenue, 20 million yen, the contrast is not appreciably impaired. No special measures such as an increase in the rates of taxes, the creation of new taxes, or the issuance of a public war loan, were required.

The rise of Japan as an international creditor nation.—The prodigious increase in the foreign trade of the United States and the problems incident to the control of international financial operations are matters of common knowledge. Japan has experienced similar happenings. From the latter part of 1915 up to the present time the foreign trade has been constantly growing. The exportation of war materials to the European allies, the urgent demand for her manufactures in India, China, and Australia, the shipping of unusual quantities of raw silk to America—all these factors have stimulated her industrial life. The immediate result, even in the face of a great increase in the importation of iron bars, steel, cotton, and wool, was an enormous excess of exports over imports. The gold reserve held by the Bank of Japan and the imperial government at home and abroad was shortly augmented to upward of one billion yen, an increase of 180 per cent over the amount held before the outbreak of the war. Naturally Japan at once started to redeem public debts, both national and municipal, which had been issued in foreign markets, and this policy has been strenuously followed out, assisted by the so-called "mobilization of securities" which was undertaken by English and French bankers soon after the war started.

Thus it seems that both America and Japan have followed a somewhat common path, and today the Japanese may claim, on a somewhat less extensive scale, the position of an international creditor nation—the position in which Uncle Sam has but recently made himself secure.

Stabilizing foreign exchange.—As a means of stabilizing the international exchanges the United States found it necessary to inaugurate the "gold exchange fund" under the co-operation of the clearing-house associations and the Federal Reserve Board. At first glance there may seem to be no analogous institution in Japan. Yet, as far as functioning is concerned, the long-discussed and time-honored system of "specie

abroad" furnishes a fitting counterpart. Even amid the clamor of the great economical and financial crisis in the early autumn of 1915, since the comparatively large credit held by the Bank of Japan and the Yokohama Specie Bank with London and New York bankers had been wisely used, it was possible to draw foreign bills up to the amount needed and thereby effectively regulate the course of foreign exchange.

Cotton loan fund and war-risk insurance.—Scarcely less important than the action taken by the United States to stabilize foreign exchange were the steps taken in the creation of the cotton loan fund and the war-risk insurance, the operation of which commenced as early as September, 1914. To meet a somewhat similar situation, a chartered company was created under the initiative of the government of Japan, with the exclusive purpose of purchasing raw silk when that commodity fell below a specified price, and in September, 1915, the imperial government started a war-risk insurance business, providing that 80 per cent of the war risk paid by insurance companies against Japanese ships or cargoes, or any goods imported or exported on board foreign ships, was to be refunded by the government.

Trading with the enemy.—Again, when the United States in 1917 passed the federal law known as the "trading with the enemy act," the President was given power to prohibit the American people from trading with enemy nations as well as with neutral nations whose commerce was with enemy nations. In Japan like power was given to the executive authorities by Parliament as early as 1915, and the Imperial Department of Agriculture and Commerce became busily engaged in drawing up a blacklist. Similarly, the regulation known as *Zahlungsverbot*, or the prohibition of payment to enemy nations, is worthy of mention. This measure was not taken legally and explicitly by either the American or Japanese governments, but there is no doubt that it has been carried out in practice by both.

Control over gold and silver shipments.—Finally, mention should be made of the step taken by Japan in August, 1917, which finds its counterpart in the law passed by the United States in September, 1917, to prohibit or restrict the exportation of gold coin and gold bullion as well as silver coin and silver bullion. In an ordinance proclaimed by the Imperial Secretary of the Treasury of Japan on that date, measures were taken to restrict and, if necessary, to prohibit the exportation of gold and silver, irrespective of their bullion or coin form. If the following circumstances are considered, the policy may be amply justified: (1) the unique and only available supply of gold, the United States, was then

about to restrict greatly, if not actually to prohibit, the shipment of gold; (2) the market price of silver had risen to as much as fifty cents per ounce, quoted at London; (3) the Chinese exchange was declining; (4) the supply of silver from Mexico and the United States was virtually stopped. The action of the American government in prohibiting or restricting the exportation of gold is justified by the necessity of mobilizing the gold reserves that she may stand firmly under the financial strain of the war and post-war period; but the hoarding of silver seems somewhat anachronistic when we consider that the difference between the bullion value and the face value of the American silver token-coins is far greater than that of the Japanese, and that America is holding a substantial proportion of the silver supply. Indeed, it might be better for the United States to dispose of a part of her silver at the present high market value, even though Japan must guard her somewhat limited supply.

High cost of living and price control.—The enormous importations of specie resulted in greatly augmenting the gold reserve in Japanese banks. Moreover, the circulation of the Bank of Japan has continuously increased until on the last day of August, 1917, there were outstanding in notes the unprecedented total of 670 million yen. While a large circulation of bank notes is by no means welcome, it is interesting to observe that all these notes are issued against gold. Not only is there not a single note issue uncovered, but the circulation against eligible commercial paper has completely disappeared. This enlargement of the circulating medium, aided by the heavy demand for goods and staples, naturally ushered in a period of great industrial activity and of rising prices. While there was a general increase in the wages of factory hands, prices have increased even more, and Japan has its acute problem of the high cost of living. The Imperial Department of Agriculture and Commerce has already issued an ordinance regulating certain prices, and more legislation in this field will probably follow in the near future.

Conclusion.—This comparison of measures might be carried into greater detail, but one thing is at least evident from this limited consideration. Although there is the traditional feeling that the East is East and the West is West, and although distance, language, and custom have served in the past to perpetuate this idea, there is constantly occurring a leveling-up process which is doubtless intensified in time of war. The financial steps taken by the imperial government of Japan have much in common with those of the United States; the reaction of the Japanese people to a given situation is not greatly unlike that of the

American. Thus, quite apart from political understanding such as was manifested in the Ishii-Lansing agreement, the "consciousness of difference" must in time be displaced, to use Professor Giddings' phrase, by a "consciousness of kind."

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WASHINGTON NOTES

GOVERNMENT CONTROL OF TRANSPORTATION

The Administration's program for the operation of the transportation system of the country and for the payment of its owners has now taken definite form in bills reported by committees in both houses of Congress (S. 3752 and H.R. 9685).

The two bills are substantially similar and their objects may be stated as follows: First, to confer authority upon the President to make agreements with railway companies touching compensation which the government shall pay or guarantee for the use of the property during the period of government possession and operation; for its maintenance in the meanwhile; and for its return at the end of the period in as good condition as when taken; Secondly, to provide a method and tribunal for the determination of the just compensation for the use of the property in the event the President and any railway company are unable to agree with respect to compensation; Thirdly, to provide for such additions, betterments, or extensions as may be necessary in order to make any given railway property adequate for the needs of the war, and, incidentally, to create a fund out of which the expenditures for such additions, betterments, or extensions can be paid; Fourthly, to declare where the rate-making power for general commerce shall rest during the time of government possession, control, and operation; Fifthly, to fix the period of government possession, control, and operation.

The House bill, while differing somewhat from that of the Senate, contains the essential elements of the plan ultimately to be put into effect. Section 1 authorizes the President to agree with the carriers whose property has been taken over that, during the period of federal control, each carrier may receive as just compensation—in lieu of all rights arising under due process of law—an annual sum not exceeding its average annual railway operating income for the three years ended June 30, 1917, plus a return at a rate to be fixed by the President upon the cost of additional facilities made during the last six months of 1917, the